

VZCZCXRO1513

PP RUEHAG RUEHAST RUEHDA RUEHDF RUEHFL RUEHIK RUEHKW RUEHLA RUEHLN  
RUEHLZ RUEHPOD RUEHROV RUEHSR RUEHVK RUEHYG  
DE RUEHVB #0624/01 2420923  
ZNR UUUUU ZZH  
P 290923Z AUG 08  
FM AMEMBASSY ZAGREB  
TO RUEHC/SECSTATE WASHDC PRIORITY 8591  
INFO RUEHZL/EUROPEAN POLITICAL COLLECTIVE PRIORITY  
RUEKJCS/SECDEF WASHDC PRIORITY  
RHEHNSC/NSC WASHDC PRIORITY

UNCLAS SECTION 01 OF 02 ZAGREB 000624

SIPDIS

FOR EUR/SCE, EUR/PPD, EUR/RPM AND EUR/ERA  
OSD FOR POPOVICH

E.O. 12958: N/A

TAGS: [PREL](#) [PGOV](#) [ENRG](#) [ECON](#) [KCRM](#) [HR](#)

SUBJECT: ZAGREB WEEKLY ACTIVITY REPORT - AUGUST 28, 2008

11. (U) IT'S THE ECONOMY....BACK FROM THE BEACH, THE GOC SETS PRIORITIES FOR REST OF 2008:

On August 26, in his first press conference after the government's summer recess, PM Sanader spoke on the GOC's plans to curb inflation, privatize shipyards, and gain momentum in EU accession negotiations.

INFLATION: To curb inflation, Sanader said the government would try to hold the price of natural gas for home use constant through the end of 2008, and try to do the same for commercial use as well. He said he was sure inflation would fall to 6-6.5% by the end of the year, having reached a 14-year high of 8.4% year-on-year in July. (Note: The Croatian National Bank (HNB) forecasts an average annual inflation rate of 7% for 2008, compared to 2.9% for 2007.) Finance Minister Ivan Suker said the GOC designated HRK 600 million (\$124 million) in budgetary funds to curb inflation. Sanader said the government's other anti-inflation measures would include keeping public expenditures in check and monitoring other prices for "unjustified hikes." Measures being taken by the HNB include limiting credit expansion and allowing the Croatian kuna to appreciate against the euro.

SHIPYARDS: At the same press conference, Deputy PM and Minister of the Economy Damir Polancec said the GOC would invite bids for all six of Croatia's state-owned shipyards by the end of 2008, with the "ambitious but feasible" goal of starting the privatization process the first quarter of 2009.

The shipyards now operate at a loss, requiring large state subsidies to survive. Restructuring the industry is one of the requirements for Croatia's EU accession.

EU ACCESSION: Sanader said the government hopes to open all twelve remaining chapters by the end of 2008 and close some chapters as well. He added that he remains confident Croatia can complete negotiations by the end of 12009. The government has its negotiating positions prepared for two additional chapters--fisheries and agriculture--and intends to submit them in September. COMMENT: Progress on the fisheries chapter is especially notable. The screening report for that chapter was held by the EU Council for two years. On July 29, Slovenia unblocked the report and Croatia was invited to submit its negotiating position for the chapter. (SLitke)

12. (U) SANADER SAYS SHARE SWAP WITH MOL STILL MOST LIKELY FATE FOR INA:

On August 26, PM Sanader also told the press that talks about Croatia's gas and oil company INA continue with Hungary's MOL. He said a share swap is the mostly likely deal to emerge, though a sale of the GOC's 44% stake in INA shares is still being considered. MOL has held a 25% share of INA since 2003 and is looking to obtain a majority stake. Sanader said he believed a share swap would allow the GOC to exert more influence on MOL's future policies (including, presumably, extending the prohibition against MOL selling its current INA shares which is due to expire in October 2008). He added that the GOC's budget does not need revenues from a

sale of shares. The government expects to make its decision very soon and added that much would depend on the outcome of MOL's public bid on all non-state INA shares, which is currently being reviewed by the Croatian Agency for Supervision of Financial Services (HANFA). (SLitke)

13. (U) SURGEON FLEES COUNTRY AFTER CORRUPTION CONVICTION:  
A Croatian surgeon, Dr. Ognjen Simic, was sentenced to nine years in prison on August 25 in a landmark graft trial. Simic was not in court for the sentencing, having fled to his father's home in Bosnia. As a dual citizen, he will likely remain in Sarajevo as the Bosnian Constitution does not allow for extradition of its citizens. Dr. Simic was found guilty of taking thousands of dollars in bribes from patients needing heart surgery. His sentence is the most severe for corruption since Croatia became independent in 1991. Prosecutors were disappointed by the verdict, however, and plan to appeal. They are seeking 12 years in prison as well as a guilty verdict on money laundering charges. The case is one of several investigations that USKOK (Office for Suppression of Organized Crime and Corruption) is conducting concerning graft in the medical field. USKOK's ongoing Operation Dijagnoza has already resulted in ten indictments for bribery and abuse of authority in 2008 with several trials to start soon. (CZimmer)

14. (U) CROATIA UNITED IN SUPPORTING TERRITORIAL INTEGRITY OF GEORGIA:  
On August 26 the Foreign Ministry issued a press release reaffirming its support of the sovereignty, independence and full territorial integrity of Georgia following GoR's recognition of the independence of the breakaway Georgian regions of Abkhazia and South Ossetia. The MFA noted that it

ZAGREB 00000624 002 OF 002

would continue to coordinate and harmonize its positions with the EU and NATO. Responding to criticism in the media, PM Sanader stated that the GoC was not adopting a passive position on Georgia as a non-permanent member of the UN Security Council. He said that there was no reason for Croatia not to follow the policy of the EU and NATO as an aspiring member to these bodies. President Mesic also released a statement on August 26 expressing concern about Russia's recognition of South Ossetia and Abkhazia. He noted that the GoR's policy could create the impression of trying to avoid negotiations on the status of South Ossetia and Abkhazia, even though such talks were stipulated in the agreement that President Sarkozy brokered with President Medvedev. Mesic added that the status of autonomous oblasts in the former Soviet Union did not provide legal basis for their case for independence to have precedence over the right of internationally recognized countries to maintain their territorial integrity. (PD'Amico)  
Bradtke